

# Chanel's Devotion and Product Development as a Luxury Brand

## Taking R&D and product development of its watch business as an example

by

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**Abstract:** This paper views Chanel as a technology management company, in order to distinguish its characteristics. Technology management refers to business management conducted around sophisticated technological expertise. Although Chanel was a latecomer to the watch business, Chanel's commitment to technology is apparent in the establishment of its own workshop. Chanel's commitment to technology will be considered through the example of the "J12."

### 1. Introduction

The luxury goods industry is drawing attention as a pioneer in creating "*Kansei* value," which can be loosely defined as a value that comes into existence by appealing to the sensibilities of ordinary citizens and winning their sympathy. Japan Society of *Kansei* Engineering" had chosen luxury goods brands as a theme for discussion in its transactions (Otani, *et al.* 2007; Otani 2007). On such occasions, discussion is focused on business characteristics of luxury goods brands, mainly of clothing, and not on businesses of individual companies.

In the luxury goods industry, companies are increasingly diversifying. It is an ardent

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wish of all brands to move into high-end products that carry a higher profit margin among others. Fine watches and jewelry are a case in point. There is a limit to how high the price of clothing and leather goods can be driven up, but the sky is the limit in the case of fine watches or jewelry.

On the other hand, in many cases, a particular company has no compelling reason to enter into a particular field. Just like cars, the value of a watch is accounted for largely by its functionality and a mechanism called a movement, also known as a calibre. It is virtually impossible for a branded goods company without technological expertise to establish a philosophy or consistency of its brand in a sideline business.

In the luxury brands industry, consistency is extremely important, in order to generate profit by creating brand value and customer value. A company needs to draw on the history and tradition of its own brand, which are the foundation of product-making, and resulting techniques, and showcase the philosophy of its own brand. Unless this is done in a consistent manner, the company cannot retain customers for long.

Successful luxury goods brands such as Louis Vuitton and Chanel have naturally succeeded in doing so in a variety of ways and at different levels (Kapferer and Bastien 2009; Nagasawa 2009a; 2009b; 2009c; 2010a; Nagasawa and Sugimoto 2010a).

This paper will examine the watch business of Chanel as a successful example of a company which has retained its brand consistency and attracted clients for a long period of time. Chanel, a luxury goods brand with a long tradition, has evolved into what it is now by consistently adding new innovations to its tradition. Instead of resting on the business fields where it has proven successful, the company has brought forth new ideas.

Chanel has branched into the field of fine mechanical watches. Taking Chanel's first mechanical watch "J12" as an example, this paper will study its watch business that it started up and developed after the death of Coco Chanel and consider how it combined its corporate philosophy and technologies to make the business one of its strongest segments.

Specifically, in this paper Chanel is viewed as a technology management company, in order to distinguish its characteristics. Technology management refers to business management conducted around sophisticated technological expertise. Although Chanel was a latecomer to the watch business, Chanel's commitment to technology is apparent in the establishment of its own workshop. Chanel's commitment to technology will be considered through the example of the "J12."

## **2. Environment Surrounding the Fine Watch Market**

Fine watches, jewelry, leather accessories, cosmetics, and perfume are profitable business fields for luxury goods brands. They are particularly easy for luxury fashion brands to branch out into, thanks to public perception and the brand name. Fine watches have attracted growing attention in recent years, as manufacturers can set relatively high prices for them. In fact, a number of luxury goods brands whose origins were unrelated to watches have entered the watch business.

In a different vein, fine watch brands in Europe are actively entering the Japanese market. A study conducted by Yano Research Institute Ltd. (2009) shows that Japan's imported watch market grew to just short of 500 billion yen in 2007, of which Swiss fine watches accounted for almost 400 billion yen. Despite the worsening market outlook around the world, 17 watch brands exhibited their products at the fine watch fair that opened in Geneva on January 19, 2009. Of the total, 12 brands belong to the Richemont Group, a conglomerate specializing in fine jewelry, watches, and accessories (Swissinfo 2009).

As noted above, it is difficult for a latecomer to branch out into the fine watch market where Swiss-made products boast an overwhelming history and a dominant share, even if the company is already a well-established name in other fields. It is extremely interesting to see how Chanel has gained a foothold, despite its dual disadvantages of not being a watchmaker and being a late starter.

## **3. History of Chanel's Watch-making**

Watch-making at Chanel was begun in 1987 after the death of its founder, Coco Chanel.

"Premiere," the first ever watch produced by Chanel, has all the design elements typical of Chanel. It has a bracelet featuring Chanel's iconic chain and leather strap, made so famous by its "chain belt bags," and has an octagonal case inspired by the "No. 5" bottle cap and Place Vendome in Paris.

The black face with 18-karat gold and hands oozes luxury. Production was outsourced to a Swiss watchmaker, with the final finish conducted in-house. This watch was first launched in Japan, which at the time was emerging as a promising market. The product, which was seen more of an accessory than a watch, was a hit, coinciding with a luxury goods boom back then (Nihon Keizai Shimbun 1987).

Two years later, in 1989, a diamond-studded version of "Premiere" was introduced for added luxury (Nihon Keizai Shimbun 1989). Chanel created a new watch line

“Mademoiselle” in 1990, followed by “Matellasse” in 1994. Both lines remained highly ornamental.

#### **4. Fine Mechanical Watches – “J12”**

“Premiere” was designed by the late Jacques Helleu, Chanel’s artistic director, who was also behind the creation of the “J12.” Although the line is still popular as Chanel’s signature line of women’s watches, it lacks notable technological features, as production is outsourced to an external watchmaker.

True to Chanel’s devotion to technology, functionality, and design, it was the introduction of the “J12” watch line in 2000 that brought about a new wave into the maturing fine watch market. The “J12” is named after a category of yacht used in yacht races. In developing the “J12” line, Chanel took on two challenges. First of all, the company’s watch business ventured out into men’s watches. Secondly, the company decided to produce not just beautiful designs but mechanical watches boasting state-of-the-art technologies, except that “J12” calibre 3125 is supplied by Audemars Piguet and the other calibres by ETA.

This bold move is said to have opened a new chapter for Chanel as well as the fine watch industry.

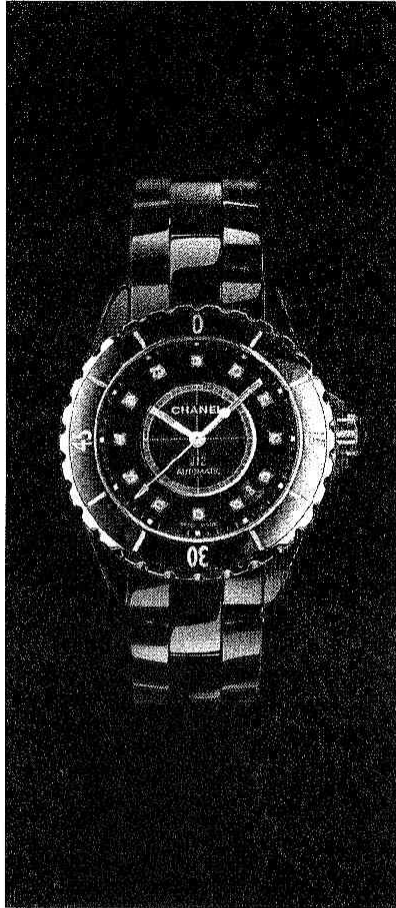
##### **4.1 Devotion to Materials**

The “J12,” shown in Photo 1, exemplifies Chanel’s various devotions as a technology management company. First of all, its material is high-tech ceramic used in airplanes and spacecraft, which overcomes the fragility of fine ceramic. It has been fired, with zirconium dioxide and yttrium being mixed in powdery or pigment form to increase the density. Instead of simply applying ceramic coating, Chanel insisted on using ceramic as a raw material, and invested more than seven years from the time of conceptualization to resolve technological issues for practical application.

Aiming to produce sturdy and powerful watches that are scratch free in daily use, Mr. Helleu first asked aeronautical engineers to develop a new material, only to be turned down due to the different fields of expertise. He was proud of the feat Chanel accomplished in the watch-making industry by using ceramic in the movement, the very heart of a watch, in addition to the bracelet and casing.

Ceramic is characterized by scratch resistance and temperature resistance, and it remains comfortable even after being worn for long hours.

Chanel makes it a corporate creed to do or create things which are always



**Photo 1: Chanel “J12” (Source: Chanel catalog)**

innovative, functional, and beautiful at the same time. Insistence on using the ceramic material in the watch business can be seen as evidence of such a corporate stance. Generous investment of time and effort to reach the targeted level may prove to be a differentiating factor even in business areas where competition is intense.

Before the “J12” was created, materials used for fine watches are said to have been usually platinum, yellow or rose gold, or stainless steel in the case of sports watches (Begin 2008). Chanel defied the common practice and opted for high-tech ceramic. The first “J12” model came in black, Chanel’s corporate color and a color which until then

had hardly ever been used in fine watches.

The white line, which was subsequently introduced, used a unique mixture of ceramic and zirconium (Begin 2008). The longer this watch is worn, the closer this ceramic approaches body temperature, to the extent wearers almost forget that they are wearing a watch.

What's more, unless this material is scratched with a material as hard as diamond, it is scratch-free and does not stain or discolor even after several years, resisting aging.

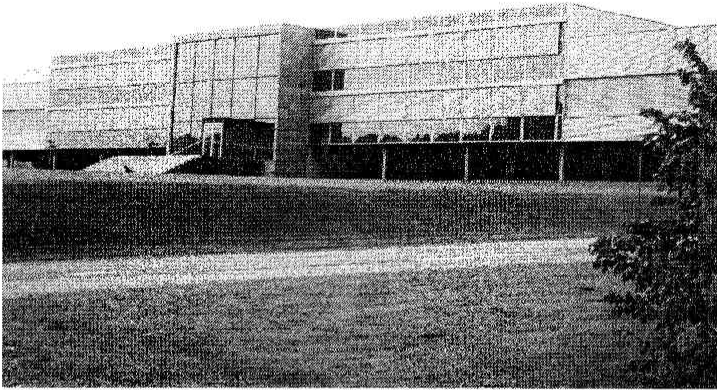
Coco Chanel's creed of making clothes that are not only beautiful but also functional and comfortable has been passed down to watch-making. One of this author's acquaintances, a lady who knows everything about luxury goods, is an avid fan of "J12" white models. The watch looks heavy and cumbersome at first glance. One day, the author asked, "Isn't that watch cumbersome when you use a PC? Why do you always wear that watch, even though you have so many other nice watches?" The author remembers her saying, "This watch is comfortable to wear and the modern design is not glaring and fits to the skin." The candid remark made by the lady who has used luxury goods from various brands and who has an acute aesthetic sense about real things prompted the author to discover the essence of the attractions of the "J12."

#### **4.2 Devotion to Technology**

Chanel started making fine mechanical watches as recently as 2000, and it already has its own workshop. Chanel's watch workshop is located in La Chaux-de-Fonds in Switzerland, the birthplace of the watch-making industry. The workshop has grown in size and had 250 employees as of 2008. All the watch-making processes are conducted there, from the manufacture of cases and straps to casing. Having the company's own workshop for fine mechanical watches, which requires advanced technologies, is a testament to Chanel's devotion to technology.

Chanel's watch-making workshop in La Chaux-de-Fonds is shown in Photo 2. Chanel posts a photo of its watch-making workshop on its Website, but not the address. When the author visited La Chaux-de-Fonds and asked at the hotel reception where the workshop is, the reception staff didn't know where. "Does Chanel have a watch-making workshop? Where? In this town? I have never heard of it. No idea," was the reply. I was at a loss for a while, but eventually managed to locate the workshop, using clues from the photo on the company's Website.

Francesco Trapani, CEO of Bvlgari, an Italian luxury goods brand with a fine watch segment, stresses the importance of in-house manufacturing (Trapani 2008). By



**Photo 2: Chanel's watch-making workshop (Taken by the author)**

establishing a manufacturing system which enables companies to have overall control over quality, companies become able to satisfy discerning customers and curb fees paid to subcontractors at the same time. In addition, in-house manufacturing allows companies to cultivate profound knowledge and know-how on products, and to carry out planned manufacturing. On the other hand, this takes money and time, which not all companies are capable of providing.

The fact that Chanel, a late starter in the fine mechanical watch industry, established an in-house workshop in this new field, certainly underlines its ultimate devotion to technology. Some may argue that devotion can be simply a sign of self-gratification. However, when a company obtains an objective external assessment of such devotion to technology, this is not the case. As a matter of fact, Chanel has successfully obtained a seal of approval from the outside.

A chronometer is a watch that has obtained an official certificate from the Swiss Official Chronometer Testing Institute, known by its French acronym of COSC, after passing precision tests, and the certificate is a guarantee of the accuracy of its time and quality control. "J12" has been awarded this title, which, until recently, had been awarded only to a limited number of watches made by watchmakers with histories of more than 100 years.

Moreover, in 2007, Chanel was ranked ninth in the number of movements

submitted by watchmakers for certification (Begin 2008). The top spot was taken by Rolex, followed by Omega. Almost all the brands in the top ten rankings are makers of mechanical watches with more than 100 years in business. It is truly remarkable that Chanel has achieved such high standards in terms of technologies and watch-making with less than 10 years of history.

The “J12” is the symbol of Chanel’s technology management. The author cannot overemphasize that the company has a watch-making workshop despite being a late starter. Aiming for complete in-house manufacturing at its workshop, Chanel spends a long time cultivating craftsmanship, develops the latest technologies, and carries out quality control. These underscore the importance the company attaches to technology.

With many brands entering the watch business, competition for securing watch-making craftsmen has heated up recently in Switzerland. There is an acute short supply of key components in particular, and companies are having difficulty securing a necessary supply from external suppliers. Vertical integration through acquisition of parts manufacturers and other means makes sense for preventing lost sales opportunities among other things (Begin 2008).

Mr. Jacques Helleu said about “J12” as follows:

“The ‘J12’ is a watch that has achieved all the elements I hold dear. The contrast between black and white cherished by Chanel, sophisticated technologies exemplified by high-tech ceramic, and excellent manufacturing techniques of Swiss watches are combined in this timeless, eternal piece.” (VOGUE NIPPON)

#### **4.3 Devotion to Straps**

“J12” features a hidden deployment clasp. The clasp has a unified and beautiful look, and does not damage fingernails. Unlike a common clasp, which needs a fingernail to release, this clasp can be released with a gentle push on the two sides, preventing cracking of women’s fingernails and exfoliation of manicuring.

This is another example of Chanel’s devotion to functionality and beauty. Chanel has reportedly obtained a global patent for this clasp. Even in the description of features of its sports watches, Chanel lists special aesthetic features, in addition to basic components, such as the base.

Chanel’s insistence on turning creativity into commercial products and its technological prowess are also illustrated in such small details.



#### **4.4 Devotion to Sales Channels**

Compared to other brands, Chanel is a late starter in the watch and jewelry business. An excellent product may not necessarily evoke a perception of luxury or a sense of prestige, if it is offered through an unsuitable marketing channel.

Chanel decided not to offer its watches at its fashion outlets. Instead, it took special care in selecting marketing channels, opting to sell its watches at its flagship jewelry and fine watch store in Place Vendome in Paris, which opened in 1997, and other selected stores.

By making efforts to enhance the public perception of Chanel's watch and jewelry section, whose history is much shorter than the fashion and perfume segments, and to establish Chanel as a luxury brand, the company is now recognized as a premier watchmaker by consumers (Nikkei MJ 2006).

#### **5. Devotion to Brand Philosophy – Combining Eternity/Tradition, Innovation, Practicality, and Beauty. Defying the Common Practice**

President Takahashi of Cassina Inc., a high-end furniture manufacturer, regards Chanel the best fashion brand in the world and thinks highly of Chanel's strategy to adhere to the high-end market. He also approves Chanel's decision not to expand its business for no reason and calls it one of the few brands whose entire catalog of products is selling well, including its mainstay clothing, bags, shoes, jewelry, and cosmetics lines. Chanel could survive as a super brand, even if it chose not to sell men's watches as part of its expansion strategy, he added (Kodansha Theory 2008).

For a comprehensive fashion brand like Chanel, it is easier to make profit if it decides to draw on its technical expertise and marketing power and introduce men's versions of clothing or leather goods, rather than watches. But Chanel does not choose that path, precisely because it is Chanel. In developing mechanical watches for men, Chanel took on technological challenges and took time until it was satisfied with the end result.

Chanel never commercializes products which fail to meet its in-house standards. The company is committed to not commercializing products which are technologically lacking. Such insistence can be maintained only with abundant capital and only when all employees understand the importance of pursuing its corporate philosophy. Chanel benefits from both. More importantly, it is a company capable of turning its devotions to commercial products and businesses.

## **6. Obtaining a Stake in a Watchmaker**

Chanel obtained a stake in Bell & Ross, a French watchmaker, in 2001. The company, which was founded in 1992 by a group of designers of and specialists in equipment for airplanes and spacecraft, sells watches that are a must item for astronauts, pilots, scuba divers, and land mine removal specialists. The company offers practical and uncluttered watches that are pleasing to the eye at the same time (Bell & Ross), a company policy similar to that of Chanel.

Bell & Ross does not seem to be involved in the watch-making by Chanel, although no official confirmation is available. Given that Chanel has its own workshop in La Chaux-de-Fonds, where the entire watch-making processes -- from the manufacturing and assembly to final adjustment -- are conducted and in view of a similar stance regarding product making, it is certain that the two companies influence each other one way or another.

According to sources close to a fine watch import company, in contrast to a growing trend in the watch industry in recent years, Chanel didn't intend to make Bell & Ross a group company when it acquired a stake in it. Bell & Ross remains in charge of its management and will receive financial and legal assistance from Chanel and cooperation in the form of a supply of movements and shared use of factories.

Support from Chanel will enable Bell & Ross to secure a supply of components for its products, even if it suspends production of particular models in the future.

## **7. Conclusions**

Since Chanel is an unlisted private company, it does not disclose its overall sales figures and the sales figures of its watch business. However, we have reason to believe that its watch business is doing well. Let us search Chanel watch on a search engine "Yahoo," and we will get some 20 million hits. In advertisements of discount watch stores and Websites advertizing fake watches, Chanel tends to appear next to Rolex or Omega, the two best known fine watches, a sign of Chanel's extreme popularity among consumers.

As noted above, Chanel has taken on new challenges and successfully built new businesses at a sophisticated level, instead of becoming complacent as an established brand. Founder Coco Chanel's philosophy was transformed through technological expertise or creative power into further innovations. The "J12," the watch which comes in color variations of Chanel's corporate colors of black and white, is increasingly recognized as the company's new signature item, along with "No. 5" perfume, chain belt bags, and Chanel suits. It is apparent that the watch business is not a one-off project with the

Chanel label attached. The style and philosophy created by founder Coco Chanel were combined with devotion to technologies, giving rise to a new brand icon. That is what Chanel's watch business is about (Sugimoto and Nagasawa 2009; Nagasawa 2010b; Nagasawa and Sugimoto 2010b).

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